represented a much smaller combined sales volume than the 18 that *were* included. Moreover, table I–1 clearly indicates that the bulk of total sales in the categories surveyed was included.

CHAPTER II

GROSS MARGINS, PRICES, AND PROFITS

In addition to obtaining information on the use of installment credit, the Commission survey requested financial statement data as well as wholesale and retail prices on popular appliance and furniture items. This information was classified by type of retailer and indicated that operating results for low-income market retailers differed significantly from general market retailers in a number of important respects.

Gross Margins

Gross margins represent the difference between the wholesale cost of goods and total revenue derived from their sale at retail as a percent of selling price. Gross margin is the amount remaining to the retailer to cover operating expenses, including salaries, commissions, rent, equipment, other overhead expenses, and net profit.

Though gross margins for different types of retailers in the survey sample varied, the most significant variation was found when margins of low-income market retailers were compared with those of general market retailers (table II–1). The 18 low-income market retailers had an average gross margin of 60.8 percent. The average for general market retailers was 37 percent, ranging from a low of 30 percent for appliance, radio, and TV stores to a high of 41 percent for furniture and home-furnishing stores.[1]

TABLE II–1.—NET SALES AND GROSS MARGINS OF DISTRICT OF COLUMBIA RETAILERS, 1966

[Dollar amounts in thousands]

Type of retailer	Number of companies	Net sales		Gross margin [1]	
		Value	Percent of total	Value	As percent of sales
Low-income market retailers	18	$7,874	5.2	$4,790	60.8
General market retailers	47	143,096	94.8	52,988	37.0
Appliance, radio, and television	22	25,089	16.6	7,586	30.2
Furniture and home furnishings	22	26,643	17.7	10,979	41.2
Department stores	3	91,364	60.5	34,423	37.7
Total, retailers using installment contracts	65	150,970	100.0	57,778	38.3
Retailers not using installment contracts	31	74,842		26,902	35.9
Total, all retailers surveyed	96	225,812		84,680	37.5

[1] Gross margins reported by different types of retailers may not be strictly comparable. one low-income market retailer included finance charges and 1 general market appliance retailer included service charges in their net sales. Adjustments were made in these instances, but other retailers in the sample may have included such charges in their net sales and not reported their inclusion. To the extent that finance, service, and other charges might have been included in net sales and no corresponding adjustment made in cost of goods sold, gross margins for these retailers would be slightly overstated. However, every effort was made to calculate gross margins in this study net of finance and other charges.

Obviously, the higher the gross margin on a particular product, the higher will be its retail price. On the average, goods purchased for $100 at wholesale sold for $255 in low-income market stores, whereas the retail price was $159 in general market stores (see figure II–1).[2] Thus, low-income market retailers marked up their cost two and a half times to determine their selling price. This was the average for the 18 low-income market retailers in the sample. The retailer with the largest volume of sales in this group had a gross margin of 67.9 percent of selling price, which means that he marked up his merchandise on the average to more than three times its cost.

[1] Subjecting these differences to statistical analysis indicated that there was only one chance in 100 that they reflected simple random variation. In other words, there is every reason to believe that differences in gross margins of low-income market retailers and general market retailers are systematic.

[2] These are cash prices and do not include separately imposed finance charges.